



ASSOCIATION FOR ENTERPRISE OPPORTUNITY

February 14, 2005

Senate Committee on Small Business and Entrepreneurship
Russell Senate Office Building, Room 428-A
Washington, D.C. 20510

Chairman Snowe, Ranking Member Kerry and other Members of the Committee:

On behalf of the Association for Enterprise Opportunity (AEO) and the Community First Fund, thank you for the opportunity to present testimony to the Small Business Committee regarding the Administration's FY 2006 Budget Proposal. My name is Daniel Betancourt, and I am President and CEO of the Community First Fund in Pennsylvania. Community First Fund's mission is to drive community and economic development in the 10 counties that we service, and we are also an SBA Microloan Intermediary. However, I am here today not only on behalf of microenterprise development in Pennsylvania, but also in my capacity as a Board member for AEO.

AEO is the national trade and membership association for microenterprise development in the United States, with nearly 500 member organizations nationwide. The vast majority of AEO's membership consists of microenterprise practitioner agencies, including over half of all Microloan Intermediaries and PRIME grantees. As you know the SBA Microloan and SBA PRIME programs have both been recommended for elimination in the FY 2006 Budget Proposal. In addition, SBA has proposed cuts of \$500,000 to the Women's Business Center (WBC) program. **In light of the continuing business assistance needs of low- and moderate-income entrepreneurs, AEO respectfully requests that the Small Business Committee include the SBA Microloan, PRIME and WBC programs in its Budget Views & Estimates at \$20 million in lending capital for the SBA Microloan Program, \$17 million for SBA Microloan Technical Assistance, \$5 million for the SBA PRIME Program, and \$16.5 million for Women's Business Centers. More importantly we would like for the Small Business Committee to work to ensure that these vital programs are funded in the FY 2006 appropriations process at the levels specified in this testimony.**

The Administration's proposed elimination of the SBA Microloan and PRIME Programs threatens to wipe out two essential federal funding sources for microenterprise development in the U.S., effectively terminating the only available sources of business assistance for thousands of underserved entrepreneurs across the country. **The fact is that these entrepreneurs are not served by the private sector, nor do they qualify to receive SBA guaranteed loans like 7(a) or Community Express.**

The SBA Microloan Program

The SBA Microloan Program, the single largest source of funding for microenterprise development in the nation, was created in 1992 to help small business owners in need of small amounts of capital (less than \$35,000) that are not yet "bankable" in the private sector

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lending community. Since 1992, SBA Microloan Intermediaries have made over 21,000 Microloans totaling more than \$250 million, primarily to women, minority, and low-income entrepreneurs. In FY2004, Intermediaries made 2,425 loans, totaling \$32,955,487. **In addition, over 40% of Microloans are made to rural microenterprises.**

The Administration contends that banks will now lend to Microloan borrowers through the 7(a) Community Express Program, which is just not the case. Microloan borrowers often have FICO credit scores as low as 550, past credit problems, little or no collateral, and lack business experience. **Traditional banks will simply not lend to these borrowers, with or without a SBA guarantee.** Also, it is important to note that over 40% of SBA Microloans go to start-ups while 7(a) loan guarantees require that individuals already be in business anywhere from 1 to 3 years.

Despite lending to the riskiest borrowers, the Microloan Program has experienced a default rate of less than 1%. This accomplishment can be primarily attributed to the countless hours of intensive technical assistance that Intermediaries provide to Microloan borrowers. The technical assistance acts as a driver for business success and greatly improves the chances for successful business repayment.

The SBA PRIME Program

PRIME is the only federal microenterprise program that provides intensive training and technical assistance to low-and very low- income entrepreneurs. For many entrepreneurs, lack of access to capital is only one of the barriers to starting or growing a successful small business. PRIME provides grants to microenterprise organizations throughout the country to offer this invaluable assistance. In addition, PRIME is unique in that at least 50% of all grant award dollars must be used to provide these services to very low-income individuals.

The Administration has proposed the elimination of the PRIME Program for the past five years. However, Congress has continued to fund PRIME each year and in doing so has recognized that by investing in very low-income entrepreneurs, the program succeeds in creating jobs and income in communities that need it most. **PRIME is just that—an investment. PRIME clients create and retain jobs, move off of public assistance and pay increased taxes as their businesses and incomes grow.**

The SBA Women's Business Center Program

The Women's Business Centers (WBC) of the Office of Women's Business Ownership provide training and technical assistance to women starting or expanding their businesses. In 2003 alone, Women's Business Centers across the country trained and counseled over 104,000 women in core business areas such as marketing, bookkeeping and finance. The Centers serve an invaluable role in meeting the special needs of female entrepreneurs across the country.

America's 9.1 million women-owned businesses employ 27.5 million people and contribute \$3.6 trillion to the economy. However, women continue to face unique obstacles in the world of business and greatly need the specialized services that Women's Business Centers provide.

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Again, we ask that the Subcommittee do what is truly best for small business in America and include the Microloan, PRIME, and Women's Business Centers in its Budget Views and Estimates at \$20 million for Microloan Lending, \$17 million for Microloan Technical Assistance, \$5 million for PRIME, and \$16.5 million for Women's Business Centers. More importantly we would like for the Small Business Committee to work to ensure that these vital programs are funded in the FY 2006 appropriations process at the levels specified in this testimony.

Sincerely,

Daniel Betancourt

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